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NEA FOR FRONT OFFICE; NEA/IPA FOR SHAMPAINE/BELGRADE; NSC
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TAGS: EFIN ECON KWBG PTER OVIP

SUBJECT: (S) FAYYAD ASKS U/S LEVEY FOR HELP WITH QATAR AND
TRADE-BASED MONEY LAUNDERING

Classified By: Acting Principal Officer Thomas Duffy, for reasons 1.4 b
,d.

¶1. (S) Summary. Palestinian Authority (PA) Prime Minister Salam Fayyad told Under Secretary of Treasury Stuart Levey that Qatar was ""willfully bad"" on issue related to financing of terrorist organizations, including HAMAS. He said the PA was ready to move on terror financing legislation, but would begin to shift responsibility for these issues from the Palestine Monetary Authority (PMA) with which he is increasingly unhappy, to Government Ministries and his own office. While committed to going after banks and charities that provide illicit funding, Fayyad said that trade-based money laundering was probably a much larger problem - and much more difficult to counter. Levey promised to respond positively to requests for assistance from the PA, and asked Fayyad to articulate them in a way that the USG might best assist. End Summary.

""Qatar is willfully bad""

¶2. (S) PA Prime Minister Fayyad, meeting with Under Secretary of the Treasury Stuart Levey on August 10 in Jerusalem, said that he was extremely worried about Qatar and its continued support for HAMAS and other Islamist organizations in the West Bank and Gaza. ""Qatar is a very lousy country, in every possible way,"" he said, claiming that they provide ""more support to fundamentalists than Kuwait or Saudi Arabia.""
Fayyad said that there was lots of money coming into the region from Qatar. Qatar's support for these organizations ""on camera in the Security Council"" (a reference to Qatar's recent sponsorship of a Council statement that Ramallah saw as one-sided) should, he suggested, be a strong indication of where their financial support is going. He added that Qatar is using charitable organizations to move funds to Gaza.
""Qatar is willfully bad on money,"" Fayyad said, and he encouraged the USG ""to make life difficult for Qatari banks in the U.S.""

PA ready on terror financing legislation

¶3. (S) Fayyad told Levey that he was prepared to act quickly to pass legislation that would empower the PA to take action against accounts involved in illicit financing. He noted that the PMA had produced draft anti-money laundering (AML) legislation that he would recommend that President Abbas (Abu Mazen) sign into law in ""the next two weeks.""
Fayyad welcomed USG feedback on the draft AML law, and said that he would provide a copy to Post.

¶4. (S) Fayyad expressed concern about the performance of the PMA on money laundering and illicit financing over the past years, and said that he wanted to move the responsibility to fight these issues to the Government. Fayyad said that the PA's Financial Intelligence Unit will not be under the leadership of the PMA, but will be representative of all PA agencies. The PMA will be on it, he said, but he thought that they were too close to the banks and didn't have enough "presence in the system." As an example, the PMA closed the banks on August 9 for a holiday with almost no notice to the public or other businesses. Though frustrated with the current management, Fayyad said the problems with the PMA were institutional, as there were problems with the previous leadership too. Fayyad encouraged the USG and others to continue to interact and do business with the PMA, but said he wanted to shift the discussion with the U.S. on illicit financing to the Government.

Focus on trade-based money laundering

¶5. (S) "We continue to look at bank accounts and donations to charities," Fayyad said, which provide a source of regular but small scale transfers of illicit funds. He agreed that while banks and charities remained an area of concern, but suggested that the U.S. look more closely - and provide assistance - in the area of trade-based money laundering. While still studying the problem, Fayyad said he expected it was a "main channel" for illicit financing into the West Bank and Gaza. He said he particular concerns about Hebron and Gaza.

¶6. (S) One indication of the likely scope of the problem, he said, was the "suspiciously large" deposit base in the West

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Bank and Gaza. Even as the economy deteriorates, the deposit base continues to grow, leading to a "macro-picture that doesn't make much sense", and signaling the presence of a significant informal economy. "I worry that most of this goes to finance bad things," he said. Fayyad promised the USG the PA's diagnosis of the suspected money laundering situation, but he warned that the trade-based operations were highly efficient and very difficult to detect. Fayyad said that the PA would be more aggressive in this area. "We need sufficiently trained people." Levey said that Treasury would be ready to help once Fayyad determined how the USG could best assist the PA. . Remarking that he is "not happy with European aid," he added that he would provide more guidance "in the next couple weeks" on how the USG could assist with improving transparency in and safeguarding the PA's financial system.

Don't collapse banks in Gaza

¶7. (S) Fayyad said that he did not want to see the banking system in Gaza, despite its problems, entirely collapse. He worried that such a collapse would create long-term difficulties in Gaza and would have serious repercussions on the banking sector in the West Bank. Therefore, he would not recommend that the Israeli banks cut off their relationships with the Gaza banks. However, Fayyad said that he would trust Israeli Central Bank Governor Stanley Fischer on this. "I have a better relationship with the Central Bank of Israel than with the PMA."

¶8. (S) Fayyad expressed appreciation action taken by Jordanian banks, and in particular by the Arab Bank. "Notwithstanding U.S. litigation, Jordan's doing a good job. I am worried more about the smaller banks," he said.

¶9. (U) U/S Levey has cleared this message.

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